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FISCAL IMPACT STATEMENT

LS 6129
BILL NUMBER: HB 1036

NOTE PREPARED: Feb 19, 2009
BILL AMENDED: Feb 19, 2009

SUBJECT: Lifelong Learning Account Pilot Program.

FIRST AUTHOR: Rep. Klinker
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill requires the Indiana Education Savings Authority (IESA) to establish and administer a lifelong learning account pilot program. It provides that the annual household income of a participating individual may not exceed 300% of the federal income poverty level. It specifies that a lifelong learning account established for a participating individual must: (1) be an account in a financial institution; and (2) allow a participating individual to deposit, from the individual's earned income, money that may be matched by the participating individual's employer, a financial institution, the state, or any other entity, and that will be used by the participating individual for education and training costs at a postsecondary educational institution, a vocational school, or a training program that may lead to employment for the individual. It requires the IESA to seek grants and other funding for the pilot program from public and private entities. It provides that money withdrawn from a participating individual's lifelong learning account is not subject to state income taxation if the money is used by the participating individual for specified education and training costs.

The bill provides a state tax credit for contributions to a lifelong learning account. It specifies that money in a participating individual's lifelong learning account may not be considered: (1) an asset of the participating individual when determining the individual's eligibility for the Temporary Assistance for Needy Families program; or (2) a countable asset for purposes of township assistance.

(The introduced version of this bill was prepared by the Interim Study Committee on Adult Education Issues.)

Effective Date: July 1, 2009.

<u>Explanation of State Expenditures:</u> *Department of State Revenue (DOR)* - The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The DOR will also have to track, approve, and monitor credit applications each year until the annual credit maximum is reached. The Department's current level of resources should be sufficient to implement this change.

Indiana Education Savings Authority (IESA) - This bill requires the establishment and administration of a Lifelong Learning Account Pilot Program by the IESA, which would result in an administrative impact. There could also be costs resulting from legal fees. They are required to establish written guidelines regarding the eligibility of participation by individuals and financial institutions, and the permissible uses of money in the lifelong learning accounts. The IESA is also required to seek grants and other funding for the pilot program, and submit annual reports to the Governor and General Assembly on the pilot program. In 2014, the report must include conclusions and recommendations, and information about the cost and feasibility of expanding the pilot program. The costs associated with establishing and administering the program are unknown, but potentially significant. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

<u>Explanation of State Revenues:</u> (Revised) <u>*Summary*</u> - This bill provides a new tax credit to individuals and corporations that make contributions to Lifelong Learning Accounts beginning in 2009.The amount of credits that will be claimed and the resulting fiscal impact on the state General Fund beginning in FY 2010 is unknown, but could be similar to the revenue loss resulting from the Individual Development Account credits, (see *Background Information* below). <u>The amount of credits granted may not exceed $200,000 in any fiscal year</u>.

Beginning in tax year 2009, this bill would provide a new tax credit equal to 50% of the amount contributed by an individual to a Lifelong Learning Account if the contribution is greater than $100, but less than $2,000. The minimum amount to be claimed would be $50 and the maximum amount would be $1,000. The bill will not allow more than $200,000 in tax credits in any state fiscal year, with FY 2010 being the first year impacted. The credit may be taken against the Individual and Corporate Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax (FIT), and the Insurance Premiums Tax (IPT).Revenue from the Individual and Corporate AGI Tax, the FIT and the IPT is distributed in the state General Fund.

(Revised) <u>*Background Information: Lifelong Learning Account Pilot Program*</u> - This bill would establish a Lifelong Learning Account Pilot Program. This program would enable individuals to participate in contributing to lifelong learning accounts through deposits that may be matched by employers, financial institutions, the state, or other entities. Individuals are eligible to participate if their annual household income does not exceed 300% of the federal poverty level. Money deposited in the lifelong learning account is not subject to taxation if it is used for the purposes of tuition, books, and other expenses incurred at a postsecondary institution, vocational school, or training program. Individuals desiring to receive the tax credit must submit an application to the DOR, who will then approve the applications if the individuals are qualified for the tax credit, until the $200,000 limit is reached.

<u>*Individual Development Accounts*</u> - Individual Development Accounts, established by IC 4-4-28, are accounts in financial institutions administered by community development corporations that allow individuals to deposit money for the purposes of tuition, books, and other expenses incurred at a postsecondary institution, vocational school, or training program. Deposits may also be made to purchase a primary residence, to reduce the principal owed on a primary residence, for remodeling or repair of a primary residence, or to begin or to purchase part or all of a business or to expand an existing small business. Money deposited in these

accounts may be matched by the state, financial institutions, corporations, and other entities. If the contribution is greater than $100, but less than $50,000, a tax credit may be claimed for 50% of the contribution. The minimum amount able to be claimed would be $50 and the maximum amount would be $25,000 for individuals. No more than $200,000 in tax credits may be claimed in any state fiscal year.

In tax year 2006, a total of 97 individual and corporate filers claimed $168,232 in Individual Development Account credits, and in tax year 2007, a total of 53 individual and corporate filers claimed $131,908. Because the Lifelong Learning Account credit's application is similar to the Individual Development Account credit, revenue loss due to the Lifelong Learning Account credit could be similar to revenue loss due to the Individual Development Account credit.

2009 Federal Poverty Level Guidelines:

2009 Federal Poverty Level Guidelines (Family Income per Year)	
Family Size	**300% FPL**
2	$43,710
3	$54,930
4	$66,150
Each Additional Person	$11,220

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Education Savings Authority.

Local Agencies Affected:

Information Sources: Jodi Golden, Indiana Education Savings Authority, 317-232-5259; Robert Walls, Department of State Revenue, Tax Policy Division, 317-232-2104; *Federal Register*, Vol. 74, No.14, pp.4199-4201.

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